Jewel Companies, Inc.

Annual Report 1971

Financial Section

JEWEL COMPANIES, INC.
DIVERSIFIED RETAILERS
O'HARE PLAZA
5725 EAST RIVER ROAD CHICAGO, ILLINOIS 60631

H. O. WAGNER
EXECUTIVE VICE PRESIDENT
FINANCE

For the information of our shareholders, we have listed below those key financial philosophies and strategies employed by Jewel Companies, Inc. to insure orderly growth of the Company within a sound financial structure.

- The Board of Directors guides and approves Jewel's overall financial structure and plans.
- The Executive Committee of the Board of Directors is responsible for the allocation and reallocation of the financial resources among the various operating companies. One of the criteria for capital allocation is the existing return on investment within each company, as well as its prospect for increased return in the future.
- While it is expected that internally generated cash flow will be utilized for the continued growth of Jewel Companies, additional Corporate long-term debt may be added to take advantage of investment opportunities. It is planned that Corporate debt, exclusive of debt of real estate affiliates, will not exceed one-third of total capitalization, notwithstanding our ability to incur Corporate long-term debt of 40 per cent of total capitalization under provisions of existing loan agreements. This programmed borrowing reserve is designed to take advantage of unusual or unexpected opportunities as well as to protect the Company in the event of unforeseen contingencies.
- New store facilities are financed whenever possible through the Company's real estate affiliates, where, based upon a lease from Jewel Companies, Inc., individual affiliated real estate corporations borrow approximately 95% of the cost of the land and buildings. Utilizing Jewel real estate affiliates for financing retail properties contributes not only to the growth in earnings of the Company through lower financing costs, but also retains the residual value of these properties for the Company.
- Financial commitments for new facilities developed by the Company's real estate affiliates are arranged before the start of construction. As of January 29, 1972, the Company had invested funds of $17,303,000 for construction in progress. As of the same date, the Company had permanent financing commitments totalling $29,100,000 to cover these properties when completed and other construction expected to start in the immediate future.
- Lines of credit are maintained with commercial banks, presently totalling $42 million, to assure the availability of adequate short-term funds to meet seasonal borrowing requirements and/or to fully support seasonal sales of commercial paper.

Through continued forward financial planning and adherence to the above philosophies and strategies, it is the objective of your Company to continue to maintain its A-1 rating on its commercial paper, the highest available, and its A rating on Corporate long-term debt.

H. O. Wagner

Accounting Principles Used by Jewel Companies, Inc.

PRINCIPLES APPLIED IN CONSOLIDATION

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. Jewel owns preferred stock convertible into 99% of the equity of the real estate affiliates. The equity of the Company in the net assets of the consolidated subsidiaries and affiliated real estate corporations is the same as the carrying amount of the investments. Substantially all intercompany transactions have been eliminated.

The Company has invested in companies—foreign and domestic—whose statements are not consolidated herein. Its investment in G. B. Entreprises (Belgium), 18% owned, is carried at cost. Its investment in Midco, S.A. (Mexico), 49% owned, and Mass Feeding Corporation, 50% owned, is carried at cost plus equity in undistributed earnings since acquisition. Provision for all income taxes estimated to be required upon distribution of reported foreign earnings has been charged to federal income tax expense.

PRE-OPENING COSTS

The Company has followed the practice of charging pre-opening costs against income as they are incurred. These include all expenses incurred prior to the opening of a new retail unit or other facility.

DEPRECIATION

Straight-line depreciation over the useful lives of depreciable property is used for financial statement purposes. The useful lives approximate 37 years for buildings, 3 years for passenger cars, 6 years for trucks and trailers, 10 years for equipment and 17 years for leasehold improvements.

INVESTMENT TAX CREDIT

The Company reflects the investment tax credit as a reduction in federal income taxes in the year eligible equipment purchases are made.

INVENTORIES

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out basis. Out-of-season and discontinued merchandise is reduced to expected realizable value.

PROFIT SHARING AND RETIREMENT TRUSTS

Retirement funds for the benefit of employees are provided principally through profit-sharing retirement trusts. Amounts contributed to the trusts are related to annual domestic earnings, over a base related to the number of common and preferred shares outstanding and before provision for federal income taxes. Retirement benefits are determined by the market value of the trusts and are fully funded. These funds amounted to approximately $174,000,000 at the end of 1971.

DEFERRED INCOME TAXES

Deferred income taxes arise because of differences in the timing in reporting items of income and expense for tax purposes compared to their recognition in the financial statements. The primary differences occur in depreciation, credit sales, self-insured losses and contingent compensation.

OTHER DEFERRED LIABILITIES

Costs associated with the Company's self-insurance and contingent compensation plans have been charged against current earnings. Such costs will be paid out over a period of years. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

Accountants' Report

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF JEWEL COMPANIES, INC.

We have examined the accompanying consolidated balance sheet of Jewel Companies, Inc. as of January 29, 1972 and January 30, 1971, and the related statements of earnings, accumulated earnings and sources and uses of funds for the fifty-two week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. at January 29, 1972 and January 30, 1971, the results of its operations and the changes in financial positions for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
March 17, 1972

Touche Ross & Co.

Jewel Companies, Inc.

Consolidated Balance Sheet

Assets

	Jan. 29, 1972	Jan. 30, 1971
	(In thousands)	
Current Assets:		
Cash	**$ 21,900**	$ 22,774
Marketable securities and certificates of deposit, at cost which approximates market	**8,708**	32,120
Accounts receivable, less allowances ($993 and $996 respectively)	**21,587**	22,426
Inventories	**136,342**	121,381
Prepaid expenses and supplies	**6,264**	4,932
Total current assets	**194,801**	203,633
Investments (principally foreign affiliates)	**36,177**	33,288
Property, Plant and Equipment (at cost):		
Buildings	**122,807**	107,988
Equipment and leasehold improvements	**248,802**	227,940
	371,609	335,928
Less allowance for depreciation and amortization	**134,622**	128,306
	236,987	207,622
Land	**50,050**	41,516
Total property, plant and equipment	**287,037**	249,138
	$518,015	$486,059

Liabilities

	Jan. 29, 1972	Jan. 30, 1971
	(In thousands)	
Current Liabilities:		
Accounts payable and accrued expenses	**$121,080**	$110,599
Accrued federal income tax	**7,430**	9,953
Long-term debt, due within one year:		
Obligations of Jewel Companies, Inc.	**1,957**	741
Obligations of real estate affiliates	**3,910**	3,250
Total current liabilities	**134,377**	124,543
Long-Term Debt, due after one year:		
Obligations of Jewel Companies, Inc.	**71,210**	76,783
Obligations of real estate affiliates	**68,859**	61,615
Deferred Income Taxes	**19,405**	16,969
Other Deferred Liabilities	**5,727**	4,291
Shareholders' Investment:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 31,500 shares at Jan. 29, 1972	**3,150**	4,800
Common stock—$1 par value—authorized 25,000,000 shares, issued 7,385,478 shares at Jan. 29, 1972	**69,948**	66,796
Accumulated earnings—Reserved for self-insured losses and general contingencies	**1,250**	1,250
Accumulated earnings—Unappropriated	**145,266**	130,321
Treasury stock at cost	**(1,177)**	(1,309)
Total shareholders' investment	**218,437**	201,858
	$518,015	$486,059

See accompanying notes to financial statements and description of accounting principles.

Statement of Earnings

	52 Weeks Ended Jan. 29, 1972	52 Weeks Ended Jan. 30, 1971
	(In thousands)	
Sales:		
Supermarkets	**$1,332,480**	$1,218,695
Drug Stores	**204,795**	179,835
Self-Service Department Stores	**145,932**	110,012
Direct Marketing Division	**81,247**	81,039
Restaurants	**18,891**	16,826
Other Sales and Revenues	**26,416**	22,089
Total Sales	**1,809,761**	1,628,496
Cost of Doing Business:		
Cost of goods sold	**1,421,749**	1,282,882
Selling, general and administrative expense	**337,599**	295,337
	1,759,348	1,578,219
Operating Income	**50,413**	50,277
Foreign Income	**4,081**	3,272
Interest Income	**529**	880
Interest Expense:		
Obligations of Jewel Companies, Inc.:		
Long term	**(4,940)**	(4,935)
Short term	**(263)**	(400)
Obligations of real estate affiliates (long term)	**(4,681)**	(3,586)
Earnings Before Income Taxes	**45,139**	45,508
Provision for Income Taxes:		
State and local	**1,967**	1,781
Federal	**16,535**	19,765
Net Earnings for the Year	**$ 26,637**	$ 23,962
Per average common share outstanding	**$3.61**	$3.36

Income Contribution*

	(Percent to total)	
Supermarkets	**77.0%**	74.2%
Drug and Self-Service Department Stores	**14.7**	18.0
All Other Jewel Companies	**8.3**	7.8
Total	**100.0%**	100.0%

*Before general Corporate overhead, foreign income, net interest expense and provision for income taxes.

See accompanying notes to financial statements and description of accounting principles.

Statement of Accumulated Earnings —Unappropriated

	52 Weeks Ended Jan. 29, 1972	52 Weeks Ended Jan. 30, 1971
	(In thousands)	
Beginning of year	**$130,321**	$117,515
Add: Net earnings for the year	**26,637**	23,962
	156,958	141,477
Deduct:		
Cash dividends declared:		
Preferred stock—$3.75 per share	**84**	110
Common stock—$1.575 per share in 1971; $1.50 in 1970	**11,608**	10,939
Other transactions	**—**	107
	11,692	11,156
End of year	**$145,266**	$ 130,321

Statement of Sources & Uses of Funds

	52 Weeks Ended Jan. 29, 1972	52 Weeks Ended Jan. 30, 1971
Sources of Funds—		
From Operations:		
Net earnings	**$ 26,637**	$ 23,962
Dividends from unconsolidated affiliates in excess of or (less than) equity in earnings for the year	**338**	(1,325)
	26,975	22,637
Depreciation and amortization:		
Jewel Companies, Inc.	**21,083**	18,543
Real estate affiliates	**2,213**	1,847
Increase in deferred taxes and other deferred liabilities	**3,872**	3,065
	54,143	46,092
Sale of capital stock (net)	**1,634**	24,794
Increase (decrease) in long-term debt (net):		
Jewel Companies, Inc.	**(4,357)**	16,973
Real estate affiliates	**7,904**	10,109
Increase in payables, accruals and taxes	**7,958**	22,796
	67,282	120,764
Uses of Funds—		
Dividends to owners of the business	**11,692**	11,049
New property, plant and equipment (net):		
Jewel Companies, Inc.	**45,546**	37,749
Real estate affiliates	**15,649**	21,418
Increase in inventories	**14,961**	11,323
(Decrease) increase in accounts receivable	**(839)**	13,046
Decrease in notes payable	**—**	11,000
Increase in investments	**3,227**	1,981
Increase (decrease) in prepaid expenses and supplies	**1,332**	(459)
	91,568	107,107
(Decrease) increase in cash and marketable securities	**$(24,286)**	$ 13,657

See accompanying notes to financial statements and description of accounting principles.

Notes to Financial Statements

INVESTMENTS

	Jan. 29, 1972	Jan. 30, 1971
	(In thousands)	
Affiliates:		
At cost plus equity in undistributed earnings since acquisition:		
Midco, S.A., Mexico (49.1%)	$25,445	$25,097
Mass Feeding Corporation (50.1%) and other domestic affiliates	1,685	1,948
At cost—G. B. Entreprises, S. A., Belgium (18.2%) (market value is approximately $22,000,000) ...	8,268	5,342
All other	779	901
	$36,177	$33,288

The carrying basis of the investment in Midco, S.A., and Mass Feeding exceeds the Company's equity in the book value of underlying assets measured at the date of acquisition by approximately $14,750,000 and $940,000, respectively.

PROVISION FOR FEDERAL INCOME TAXES

The provision for federal income taxes includes the following:

	1971	1970
	(In thousands)	
Federal income tax incurred.........	$15,957	$13,947
Investment tax credit for the year....	1,518	203
Taxes currently payable............	14,439	13,744
Deferred taxes	2,096	6,021
Total provision	$16,535	$19,765

The deferred tax provision includes approximately $296,000 in 1971 and $2,700,000 in 1970 related to credit sales. This deferred tax is included in Accrued federal income tax.

LONG-TERM DEBT

Long-term debt at January 29, 1972, was as follows:

	Rate	Total Debt	Due in 1 Year	Maturities
		(In thousands)		
Jewel Companies, Inc:				
Insurance companies ...	6.875%	$30,000		1974-1993
Domestic banks	4.50	20,000	$1,250	1972-1987
Foreign banks	7.0-7.5	16,034		1974-1977
Insurance companies ...	3.75-5.00	3,489	467	1972-1978
Mortgage notes..	4.63-5.75	3,644	240	1972-1985
		73,167	1,957	
Real estate affiliates (average rate 6.9%)		72,769	3,910	1972-1998

Long-term debt matures as follows:

	Jewel Companies, Inc.	Real Estate Affiliates
	(In thousands)	
1973	$ 1,970	$ 4,042
1974	4,517	4,172
1975	3,483	4,279
1976	3,484	4,353
1977 and thereafter	57,756	52,013
	$71,210	$68,859

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc., but is secured by the assignment of lease agreements between Jewel and these affiliates and will be fully amortized during the firm term of each lease, generally 20 years.

During 1971, $3,500,000 of an $8,500,000 Euro-dollar revolving credit loan was repaid. The Company has made arrangements to refinance the remainder of its Euro-dollar and its $10,000,000 Deutschmark loans, originally scheduled to mature

on February 8, 1974 and October 31, 1973, respectively, by entering into a $15,000,000 Euro-dollar revolving credit agreement maturing February 28, 1977. Additional costs involved in repayment of the D.M. loan occasioned by recent currency revaluations in Germany have been substantially offset through the purchase of forward exchange contracts.

Under the Company's most restrictive loan agreement, payments of cash dividends on common stock are restricted to $27,665,000 as of January 29, 1972.

PREFERRED STOCK

The preferred stock is required to be retired, by call or open market purchases, by 1984. 16,500 shares were retired in June, 1971. At January 29, 1972 there were 15,842 shares in treasury (cost $1,154,000) satisfying sinking fund requirements through 1979.

COMMON STOCK

At the annual meeting of shareholders held on June 16, 1971, authorized common stock was increased from 15,000,000 to 25,000,000 shares.

Common stock transactions were as follows:

	1971		*1970*	
	Shares	*Amount*	*Shares*	*Amount*
	(In thousands)			
Balance at beginning of year	7,314	$66,796	6,637	$42,415
Public offering	—	—	650	23,409
Issued for stock options and employee purchases	71	2,645	27	952
Other transactions	—	507	—	20
Balance at end of year	7,385	$69,948	7,314	$66,796

At January 29, 1972, there were 447,003 shares of common stock reserved, of which 89,196 were for the Employee Stock Purchase Plan and 357,807 were for stock options described in the following table:

	Number of Shares		
	Reserved	*Granted*	*Available*
Balance, beginning of 1970	245,157	213,450	31,707
Reserved	200,000	—	200,000
Granted	—	151,000	(151,000)
Exercised	(27,350)	(27,350)	—
Cancelled	—	(2,500)	2,500
Balance, end of 1970	417,807	334,600	83,207
Granted	—	41,000	(41,000)
Exercised	(60,000)	(60,000)	—
Cancelled	—	(5,000)	5,000
Balance, end of 1971	357,807	310,600	47,207

	Jan. 29, 1972	*Jan. 30, 1971*
Options exercisable	101,700	99,800

Outstanding options were granted at prices ranging from $31.50 to $65.00 per share, the approximate market price on the date of grant, become exercisable in equal installments over a four-year period and expire either five or ten years from the date of grant.

During 1970, 10,777 shares of treasury stock, costing $528,000, were issued primarily under the Company's Employee Stock Purchase Plan, reducing common shares in the treasury to 437 shares, costing $23,000. There were no transactions in common treasury stock during 1971.

LEASE COMMITMENTS

Rentals for leased properties, primarily retail locations (excluding those leased from real estate affiliates), were $18,116,000 in 1971 and $15,589,000 in 1970 including rentals based on sales where applicable. As of January 29, 1972, the leases call for minimum payments of approximately $17,611,000 for fiscal 1972. Of this annual amount, 25% will expire within five years, 49% within 10 years, 74% within 15 years and 96% within 20 years.

Jewel Companies, Inc.

Ten Year Financial Summary

(In thousands except per share figures)

For the Year	*1971*	*1970*	*1969*
Total sales	**$1,809,761**	$1,628,496	$1,464,318
Earnings:			
Operating income	**$ 50,413**	$ 50,277	$ 45,587
Foreign income	**4,081**	3,272	1,129
Interest income	**529**	880	746
Interest expense:			
Jewel Companies, Inc.	**(5,203)**	(5,335)	(3,440)
Real estate affiliates	**(4,681)**	(3,586)	(2,845)
Earnings before income taxes	**45,139**	45,508	41,177
Taxes on income	**18,502**	21,546	19,760
Net earnings for the year	**26,637**	23,962	21,417
Earnings per common share*	**3.61**	3.36	3.22
Dividends paid per common share*	**1.55**	1.50	1.45
Common shares outstanding*	**7,349**	7,104	6,613
Retained earnings	**$ 14,945**	$ 12,806	$ 11,549
Depreciation	**23,296**	20,390	17,630
New property, plant and equipment (net):			
Jewel Companies, Inc.	**$ 45,546**	$ 37,749	$ 37,722
Real estate affiliates	**15,649**	21,418	7,399
At the Year End			
Net working capital	**$ 60,424**	$ 79,090	$ 52,929
Total assets	**518,015**	486,059	405,555
Long-term debt, due after one year:			
Obligations of Jewel Companies, Inc.	**$ 71,210**	$ 76,783	$ 59,024
Obligations of real estate affiliates	**68,859**	61,615	51,902
Preferred stock	**1,566**	2,930	2,945
Common shareholders' equity	**216,871**	198,928	161,206
Equity per common share*	**29.37**	27.20	24.33

†53-week year, other years 52 weeks.
*Adjusted for stock splits.

1968	1967†	1966	1965	1964	1963	1962†
$1,332,719	$1,244,417	$1,060,137	$ 933,431	$ 844,424	$ 798,436	$ 752,466
$ 42,236	$ 35,474	$ 32,289	$ 31,455	$ 29,279	$ 26,363	$ 27,881
239	—	—	—	—	—	—
598	553	616	807	662	835	568
(2,393)	(2,121)	(1,759)	(1,746)	(1,808)	(1,717)	(843)
(2,318)	(2,078)	(1,832)	(1,536)	(1,360)	(1,164)	(829)
38,362	31,828	29,314	28,980	26,773	24,317	26,777
18,341	14,237	12,838	12,782	12,041	11,992	13,843
20,021	17,591	16,476	16,198	14,732	12,325	12,934
3.01	2.64	2.47	2.45	2.23	1.86	1.96
1.35	1.25	1.20	1.13	1.07	1.07	1.07
6,605	6,608	6,603	6,526	6,521	6,504	6,496
$ 10,814	$ 9,004	$ 8,221	$ 8,407	$ 7,639	$ 5,311	$ 6,335
15,675	14,587	12,989	11,829	10,643	9,725	8,762
$ 24,185	$ 25,673	$ 21,739	$ 17,080	$ 18,451	$ 14,772	$ 17,333
11,743	5,050	10,080	3,728	5,283	9,725	6,535
$ 64,652	$ 62,366	$ 64,621	$ 64,336	$ 59,789	$ 66,168	$ 43,455
348,334	312,980	285,269	270,604	251,413	235,579	199,370
$ 39,517	$ 36,734	$ 35,371	$ 33,066	$ 34,749	$ 37,624	$ 16,145
48,229	39,967	37,321	32,421	27,704	25,729	16,644
2,993	4,503	4,726	4,764	4,913	5,095	5,374
149,652	138,141	129,797	118,767	110,283	102,023	96,557
22.63	20.92	19.61	18.16	16.88	15.68	14.85